

HIGHLAND PARK HOUSING COMMISSION
HIGHLAND PARK, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Highland Park Housing Commission	County Wayne
Fiscal Year End September 30, 2005	Opinion Date June 29, 2006	Date Audit Report Submitted to State July 1, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☐ ☐ The local unit has adopted a budget for all required funds.
 - ☐ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☐ ☒ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Controls and Compliance	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC	Telephone Number (231) 946-8930		
Street Address 1107 E. Eighth Street	City Traverse City	State MI	Zip 49686
Authorizing CPA Signature	Printed Name Barry E. Gaudette, CPA	License Number 11050	

HIGHLAND PARK HOUSING COMMISSION
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INTRODUCTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
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Fax (231) 946-1377

Independent Auditor's Report

Board of Commissioners
Highland Park Housing Commission
Highland Park, Michigan

I have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Highland Park Housing Commission, Michigan, a component unit of the City of Highland Park, as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The Housing Commission requested proposals for the audit on April 6, 2006 and I began my fieldwork on June 13, 2006. The trial balance was available for me on June 28, 2006. HUD requires the audited financial statements to be electronically submitted within nine months of the fiscal year end, otherwise the Housing Commission will be determined as troubled. There are no extensions allowed.

Highland Park Housing Commission
Independent Auditor's Report
Page Two

In my opinion, except for the effects of receiving the trial balance so close to the HUD required due date, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate remaining fund information of the Highland Park Housing Commission, Michigan, as of September 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended and interpreted as of September 30, 2005.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 29, 2006, on my consideration of Highland Park Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis comparison information on pages 4 through 7, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Highland Park Housing Commission
Independent Auditor's Report
Page Three

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Highland Park Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Highland Park Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Barry E. Kauder, CPA, PC

June 29, 2006

HIGHLAND PARK HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
September 30, 2005
=====

Highland Park Housing Commission, created in 1970, by the City of Highland Park, provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Highland Park Housing Commission consists of two programs. The first is owned housing, consisting of 198 units of public housing and the second is the capital funding program. Highland Park Housing Commission had total revenues of \$1,328,607 that includes \$457,543 in rental payments and \$845,337 in federal assistance. Total operating expenses were \$1,621,749, that includes \$278,829 in administrative expenses, \$258,776 in utilities, \$514,061 in ordinary maintenance expenses, and \$291,804 in depreciation expense. Total revenues decreased by \$333,835 from the prior year and operating expenses increased by \$98,099 from the prior year for a net decrease of \$431,934, due in part to the closing of more capital fund projects in the prior year.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$3,877,490. The Housing Commission's total net assets decreased by \$293,142 from the prior year. The decrease is attributable in part to the depreciation expense of \$291,804 being more than the actual capital outlays of \$190,312.

Total assets of the Housing Commission were \$4,086,224 including \$339,830 of current assets and \$3,746,394 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$94,408. Assets decreased, in part, by \$294,608 from the prior year for the same reason mentioned in the previous paragraph.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.

- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Commission's current position and concerns for the future

There has been a decline in the HUD Capital Fund grant amount for the current year of approximately 8.5%. Fiscal Year 2005-2006 Capital Fund money from HUD is an additional 6.4% lower. HUD has also put PHA's on notice that there is a new formula for calculating the Operating Subsidy and that the new year's amount could be \$140,000 less, 20% lower. HUD is implementing this decrease in steps over the next five years.

Our agency is liquid at this time and fairly sound, but there is considerable and increasing financial pressure on us. We currently have less cash in the bank compared to recent years due primarily to high contract costs, very high insurance premiums, and rapidly increasing employee benefit costs. We have decreasing HUD funding and increasing costs for staff, benefits, insurance, and utilities.

We operate in a severely economically depressed area. The City of Highland Park is also severely financially troubled. These financial pressures will likely necessitate cut backs on staff and on unit maintenance, and result in reduced services to tenants.

We have 13 units with lead-based paint present and have not had any funding from HUD to deal with it in many years. We are planning on building replacement houses in the years ahead to replace demolished units, but only when the funds are available.

We have unresolved financial issues with the City over payroll deductions for taxes, retirement, and insurance not remitted to the government, qualified, plan, and insurance provider, respectively. We hope to be able to resolve these issues with the City's new Emergency Finance Manager.

Analysis of overall financial position and results of operations. We lost a significant amount of money compared to the prior year and are in a weaker position financially compared to the prior year. We are dependent upon our Capital Fund money, which is not guaranteed each year from HUD.

We have no debt, long-term or short-term, beyond the PILOT owed to the City. The City has a new Emergency Finance Manager (EFM) that we can work with on issues, and we are making plans to pay off the back PILOT in the next week. When the back PILOT is paid to the City, we will have no debt.

During the current fiscal year we spent capital project monies on bathroom renovations, air conditioning units, windows, roof repairs, kitchen cabinets, cabinet countertops, and replace doors and carpet. During the next fiscal year, we will continue to make capital outlays to renovate and upgrade the units of the Housing Commission. We still have \$204,751 to draw down in capital funds.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Kyle Forrest, Finance Manager
13725 John R
Highland Park, Michigan 48203

Financial Analysis of the Housing Commission

The following condensed statement of net assets show a summary of changes for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$ 339,830	\$ 532,946	\$ (193,116)
Property and equipment	<u>3,746,394</u>	<u>3,847,886</u>	<u>(101,492)</u>
Total assets	<u>\$4,086,224</u>	<u>\$4,380,832</u>	<u>\$ (294,608)</u>
Current liabilities	\$ 94,408	\$ 106,468	\$ (12,060)
Noncurrent liabilities	<u>114,326</u>	<u>103,732</u>	<u>10,594</u>
Total liabilities	<u>208,734</u>	<u>210,200</u>	<u>(1,466)</u>
Net assets:			
Invested in capital assets	3,746,394	3,847,886	(101,492)
Unrestricted net assets	<u>131,096</u>	<u>322,746</u>	<u>(191,650)</u>
Total net assets	<u>3,877,490</u>	<u>4,170,632</u>	<u>(293,142)</u>
Total liabilities and net assets	<u>\$4,086,224</u>	<u>\$4,380,832</u>	<u>\$ (294,608)</u>

Financial Analysis of the Housing Commission (continued)

The following table summarizes the statement of activities of the Housing Commission for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 457,543	\$ 449,670	\$ 7,873
Nondwelling rent	<u>50</u>	<u>250</u>	<u>(200)</u>
Total operating revenues	<u>457,593</u>	<u>449,920</u>	<u>7,673</u>
Operating expenses:			
Administration	278,829	300,770	(21,941)
Tenant services	49,214	41,939	7,275
Utilities	258,776	244,720	14,056
Ordinary maintenance and operation	514,061	478,189	35,872
Protective services	73,646	69,977	3,669
General expenses	128,246	112,107	16,139
Extraordinary maintenance	27,173		27,173
Depreciation	<u>291,804</u>	<u>275,948</u>	<u>15,856</u>
Total operating expenses	<u>1,621,749</u>	<u>1,523,650</u>	<u>98,099</u>
Operating income (loss)	<u>(1,164,156)</u>	<u>(1,073,730)</u>	<u>(90,426)</u>
Non-operating revenue:			
Interest income	3,927	931	2,996
Other income	21,750	15,246	6,504
Operating grants	660,507	582,732	77,775
Capital grants	<u>184,830</u>	<u>613,613</u>	<u>(428,783)</u>
Total nonoperating revenue	<u>871,014</u>	<u>1,212,522</u>	<u>(341,508)</u>
Change in Net Assets	<u><u>\$ (293,142)</u></u>	<u><u>\$ 138,792</u></u>	<u><u>\$ (431,934)</u></u>

FINANCIAL STATEMENTS

HIGHLAND PARK HOUSING COMMISSION
STATEMENT OF NET ASSETS
September 30, 2005
=====

ASSETS

Current Assets:	
Cash	\$ 67,125
Accounts receivable-miscellaneous	8,961
Accounts receivable-dwelling rents	18,867
Allowance for doubtful accounts	(3,547)
Investments-unrestricted	241,943
Prepaid expenses	<u>6,481</u>
Total Current Assets	<u>339,830</u>
Property and Equipment:	
Land	122,633
Buildings	2,034,474
Equipment	669,008
Building improvements	3,569,927
Construction work in progress	<u>130,914</u>
	6,526,956
Less: accumulated depreciation	<u>(2,780,562)</u>
Net Property and Equipment	<u>3,746,394</u>
Total Assets	<u>\$ 4,086,224</u>

See notes to financial statements

HIGHLAND PARK HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2005
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 34,987
Tenant security deposit liability	26,760
Accrued expenses	29,657
Deferred revenues	<u>3,004</u>
Total Current Liabilities	<u>94,408</u>
Noncurrent Liabilities:	
Accounts payable-other governments	85,972
Accrued compensated absences	<u>28,354</u>
Total Noncurrent Liabilities	<u>114,326</u>
Total Liabilities	<u>208,734</u>
Net Assets:	
Invested in capital assets	3,746,394
Unrestricted net assets	<u>131,096</u>
Total Net Assets	<u>3,877,490</u>
Total Liabilities and Net Assets	<u>\$ 4,086,224</u>

See notes to financial statements

HIGHLAND PARK HOUSING COMMISSION

STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

=====

OPERATING REVENUES:

Dwelling rent	\$ 457,543
Nondwelling rent	<u>50</u>

Total operating revenues	<u>457,593</u>
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OPERATING EXPENSES:

Administration	278,829
Tenant services	49,214
Utilities	258,776
Ordinary maintenance and operation	514,061
Protective services	73,646
General expenses	128,246
Extraordinary maintenance	27,173
Depreciation	<u>291,804</u>

Total operating expenses	<u>1,621,749</u>
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Operating income(loss)	<u>(1,164,156)</u>
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NONOPERATING REVENUES:

Investment interest income	3,927
Other income	21,750
Operating grants	660,507
Capital grants	<u>184,830</u>

Total nonoperating revenues	<u>871,014</u>
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Change in net assets	(293,142)
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Prior period adjustments, equity transfers, correction of errors	43,358
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Net assets, beginning	<u>4,127,274</u>
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Net assets, ending	<u>\$ 3,877,490</u>
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See notes to financial statements

HIGHLAND PARK HOUSING COMMISSION

STATEMENT OF CASH FLOWS

Year Ended September 30, 2005

=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 441,252
Cash payments to other suppliers of goods and services	(899,092)
Cash payments to employees for services	(539,544)
Cash payments for in lieu of taxes	(-)
Net cash (used) by operating activities	(997,384)

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Prior period adjustments	177,020
Tenant security deposits	528
Operating grants	660,507
Other revenue	<u>30,711</u>
Net cash provided by noncapital financing activities	<u>868,766</u>

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES:

Capital grants	184,830
Payments for capital acquisitions	(190,312)
Net cash (used) by capital and related financing activities	(5,482)

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments decreased	125,470
Receipts of interest and dividends	<u>3,927</u>
Net cash provided by investing activities	<u>129,397</u>

Net increase(decrease) in cash	(4,703)
Cash, beginning	<u>71,828</u>
Cash, ending	<u>\$ 67,125</u>

HIGHLAND PARK HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2005
=====

RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:

Cash	\$ 67,125
Cash and cash equivalents per balance sheet	<u>\$ 67,125</u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(1,164,156)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	291,804
Bad debt allowance change	584
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(4,964)
Increase (decrease) in liabilities:	
Accounts payable	1,032
Accrued wages/payroll taxes	(3,164)
Accrued payments in lieu of taxes	9,527
Other accrued liabilities	(2,543)
Accrued liabilities	(114,127)
Deferred revenues	<u>(11,377)</u>
Net cash (used) by operating activities	<u>\$(997,384)</u>

See notes to financial statements

HIGHLAND PARK HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
September 30, 2005
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Highland Park Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

Highland Park Housing Commission is a component unit of the City of Highland Park, a Michigan home rule City. The Housing Commission is a Public Housing Agency created by the City of Highland Park on March 12, 1970, consisting of a five member board appointed by the City Mayor and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Highland Park Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under an ACC Contract, the Housing Commission constructed, maintains and operates 198 units of subsidized housing in the City of Highland Park, Michigan.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set

of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Highland Park Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Inventory

Inventory is priced using the average cost method.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Furniture, equipment and machinery	5 - 15 years
Building improvements	15 - 40 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources

derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave: The Housing Commission provides leave benefits for its employees based on the policy of the City of Highland Park. The personnel policy provides that, upon termination, employees will be paid all accumulated annual leave at their rate of pay upon termination.

The amount of accumulated benefits at September 30, 2005, was \$37,805, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$66,875 and the bank balance was \$78,230 of which \$78,230 was covered by federal depository insurance and a collateral agreement. The petty cash amount was \$250.

Investments

The Housing Commission had the following investment accounts as of September 30, 2005:

Comerica Bank	(CD #385106049625)	\$ 116,333
Comerica Bank	(Sweep Account #156000232-00)	<u>125,610</u>
		<u>\$ 241,943</u>

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

1. U.S. Treasury Notes - 100%; or
2. U.S. Treasury Notes and/or Bonds - 75% and
3. Mortgage Backed Securities - 25%

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one

issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

Carrying amount of deposits	\$ 67,125
Investments	<u>241,943</u>
Total	<u>\$ 309,068</u>
Cash and cash equivalents:	
Enterprise activities	\$ 320,423
Enterprise activities - deposits in transit	2,422
Enterprise activities - checks written in excess of deposits	<u>(13,777)</u>
Total	<u>\$ 309,068</u>

NOTE 3: RECEIVABLES AND PAYABLES

Accounts Receivable-Miscellaneous

This is a receivable from a former employee for unsupported leave payments. The amount totals \$8,961. The employee was required, by HUD, to pay back the amount that was received.

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2005, the receivables were \$18,867 with \$3,547 estimated as uncollectible. Bad debt expense was \$11,452.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no interfund payables to the Low Rent Program from the Capital Fund Program as of September 30, 2005

There were not any individual fund operating transfers during the fiscal year of from the capital fund program to the low rent program.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Balance</u> <u>09/30/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>09/30/05</u>
Low Rent Program			
Land	\$ 122,633	\$	\$ 122,633
Buildings	4,032,803	1,998,329	2,034,474
Furniture, equip. & machinery - dwellings	520,200	86,056	606,256
Furniture, equip. & machinery - administration	52,819	9,933	62,752
Building improvements	1,564,841	2,005,086	3,569,927
Construction in progress	<u>43,348</u>	<u>43,348</u>	
	6,336,644	<u>\$2,101,075</u>	<u>\$2,041,677</u>
Less accumulated depreciation	<u>(2,488,758)</u>	<u>\$ (291,804)</u>	<u>(2,780,562)</u>
Total	<u>\$ 3,847,886</u>		<u>\$ 3,615,480</u>
Capital Fund Program			
Construction in progress	<u>\$</u>	<u>\$ 130,914</u>	<u>\$ 130,914</u>
Combined Totals			<u>\$ 3,746,394</u>

NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning (contributed capital)	\$ 3,847,886
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	<u>(101,492)</u>
Balance, ending	<u>\$ 3,746,394</u>

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Housing Commission pays 6% of salaries and the employees pay 6% toward a defined contribution retirement plan, which covers substantially all employees. Plan provisions and contribution requirements are established and may be amended by the Highland Park Housing Commission. The retirement benefits are guaranteed by Interstate City County Managers Associates.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Implementation of New Accounting Standard

As of and for the year ended September 30, 2005, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

E. Contingencies

There is one claim pending against the Housing Commission. The claim was filed on October 14, 2004 for an alleged slip and fall in the parking lot of the Housing Commission. This case was filed in Wayne County Circuit Court and has proceeded to mediation. Both parties rejected the mediation evaluation and trial is scheduled for October 2006. Damages in excess of \$75,000 are being sought.

The Housing Commission, also has a claim against the City for \$35,000 for a house the City demolished for a project with state funding. There is a claim by the Housing Commission against the City for the loss of another house in an amount in excess of \$25,000. The Housing Commission has met with City officials and all parties have agreed to resolve this matter.

Finally, the issue of the former officials of the City's claim the Housing Commission owes the City \$169,000 for past payroll services is also being discussed. The Housing Commission and City officials have agreed to settle this issue upon payment of \$10,000 by the Housing Commission as full settlement for the City's claim of \$169,000.

NOTE 7: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2005, was as follows:

	Low Rent Program	Capital Fund Program
Condensed Statement of Net Assets		
Current assets	\$ 339,830	\$
Property and equipment	3,615,480	130,914
Total assets	<u>\$ 3,955,310</u>	<u>\$ 130,914</u>
Current liabilities	\$ 94,408	\$
Noncurrent liabilities	114,326	
Total liabilities	<u>208,734</u>	
Net assets:		
Invested in capital assets	3,615,480	130,914
Unrestricted net assets	131,096	
Total net assets	<u>3,746,576</u>	<u>130,914</u>
Total liabilities and net assets	<u>\$ 3,955,310</u>	<u>\$ 130,914</u>
Condensed Statement of Activities		
Dwelling rent	\$ 457,543	\$
Nondwelling rent	50	
Depreciation	(291,804)	
Other operating expenses	<u>(1,329,945)</u>	
Operating(loss)	(1,164,156)	
Nonoperating revenues:		
Investment interest income	3,927	
Other income	21,750	
Operating grants	660,507	
Capital grants		184,830
Change in net assets	<u>(477,972)</u>	<u>184,830</u>
Prior period adjustments, equity transfers, correction of errors	486,855	(443,497)
Beginning net assets	<u>3,737,693</u>	<u>389,581</u>
Ending net assets	<u>\$ 3,746,576</u>	<u>\$ 130,914</u>

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
Condensed Statement of Cash Flows		
Net cash provided(used) by:		
Operating activities	\$(997,384)	\$
Noncapital financing activities	922,682	(53,916)
Capital & related financing activities	(59,398)	53,916
Investing activities	<u>129,397</u>	
Net increase(decrease)	(4,703)	
Beginning cash and cash equivalents	<u>71,828</u>	
Ending cash and cash equivalents	<u>\$ 67,125</u>	<u>\$</u>

NOTE 8: PRIOR PERIOD ADJUSTMENTS

Low Rent Program

Equity transfer in from capital fund program	\$ 443,497
Prior period adjustments	<u>43,358</u>
	<u>\$ 486,855</u>

Capital Fund Program

Equity transfer to the low rent program	<u>\$(443,497)</u>
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SUPPLEMENTARY INFORMATION

HIGHLAND PARK HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 September 30, 2005
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
ASSETS		
Current assets:		
Cash	\$ 67,125	\$
Accounts receivable-miscellaneous	8,961	
Accounts receivable-dwelling rents	18,867	
Allowance for doubtful accounts- dwelling rents	(3,547)	
Investments-unrestricted	241,943	
Inventory	<u>6,481</u>	
Total current assets	<u>339,830</u>	
Property and equipment:		
Land	122,633	
Buildings	2,034,474	
Equipment	669,008	
Building improvements	3,569,927	
Construction in progress	<u>6,396,042</u>	<u>130,914</u>
Less accumulated depreciation	(2,780,562)	<u>130,914</u>
Net property and equipment	<u>3,615,480</u>	<u>130,914</u>
Total Assets	<u>\$ 3,955,310</u>	<u>\$ 130,914</u>

Totals

\$ 67,125
8,961
18,867

(3,547)
241,943
6,481

339,830

122,633
2,034,474
669,008
3,569,927
130,914
6,526,956
(2,780,562)

3,746,394

\$ 4,086,224

HIGHLAND PARK HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2005
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 34,987	\$
Tenant security deposit liability	26,760	
Accrued expenses	29,657	
Deferred revenues	<u>3,004</u>	
Total current liabilities	<u>94,408</u>	
Noncurrent liabilities:		
Accounts payable-other governments	85,972	
Accrued compensated absences	<u>28,354</u>	
Total noncurrent liabilities	<u>114,326</u>	
Total liabilities	<u>208,734</u>	
Net assets:		
Invested in capital assets	3,615,480	130,914
Unrestricted net assets	<u>131,096</u>	
Total net assets	<u>3,746,576</u>	<u>130,914</u>
Total Liabilities and Net Assets	<u>\$3,955,310</u>	<u>\$ 130,914</u>

Totals

\$ 34,987
26,760
29,657
3,004

94,408

85,972
28,354

114,326

208,734

3,746,394
131,096

3,877,490

\$ 4,086,224

HIGHLAND PARK HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended September 30, 2005
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 457,543	\$
Nondwelling rent	<u>50</u>	<u></u>
Total operating revenues	<u>457,593</u>	<u></u>
OPERATING EXPENSES:		
Administration	278,829	
Tenant services	49,214	
Utilities	258,776	
Ordinary maintenance and operation	514,061	
Protective services	73,646	
General expenses	128,246	
Extraordinary maintenance	27,173	
Depreciation	<u>291,804</u>	<u></u>
Total operating expenses	<u>1,621,749</u>	<u></u>
Operating income (loss)	<u>(1,164,156)</u>	<u></u>
NONOPERATING REVENUES (EXPENSES) :		
Investment interest income	3,927	
Other income	21,750	
Operating grants	660,507	
Capital grants	<u></u>	<u>184,830</u>
Total nonoperating revenues (expenses)	<u>686,184</u>	<u>184,830</u>
Change in net assets	(477,972)	184,830
Prior period adjustments, equity transfers, correction of errors	486,855	(443,497)
Net assets, beginning	<u>3,737,693</u>	<u>389,581</u>
Net assets, ending	<u>\$3,746,576</u>	<u>\$130,914</u>

Totals

\$ 457,543
50

457,593

278,829

49,214

258,776

514,061

73,646

128,246

27,173

291,804

1,621,749

(1,164,156)

3,927

21,750

660,507

184,830

871,014

(293,142)

43,358

4,127,274

\$ 3,877,490

HIGHLAND PARK HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended September 30, 2005
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 441,252	\$
Cash payments to other suppliers of goods and services	(899,092)	
Cash payments to employees for services	(539,544)	
Cash payments for in lieu of taxes	(-)	
Net cash (used) by operating activities	<u>(997,384)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Prior period adjustments	230,936	(53,916)
Tenant security deposits	528	
Operating grants	660,507	
Other revenue	<u>30,711</u>	
Net cash provided (used) by noncapital financing activities	<u>922,682</u>	<u>(53,916)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		184,830
Payments for capital acquisitions	<u>(59,398)</u>	<u>(130,914)</u>
Net cash provided (used) by capital and related financing activities	<u>(59,398)</u>	<u>53,916</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments decreased	125,470	
Receipts of interest and dividends	<u>3,927</u>	
Net cash provided by investing activities	<u>129,397</u>	
Net increase(decrease) in cash	(4,703)	
Cash, beginning	<u>71,828</u>	
Cash, ending	<u>\$ 67,125</u>	<u>\$</u>

Totals

\$ 441,252

(899,092)

(539,544)

(-)

(997,384)

177,020

528

660,507

30,711

868,766

184,830

(190,312)

(5,482)

125,470

3,927

129,397

(4,703)

71,828

\$ 67,125

HIGHLAND PARK HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended September 30, 2005
 =====

	Low Rent Program	Capital Fund Program
	<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
 EQUIVALENTS PER STATEMENT OF
 CASH FLOWS TO THE BALANCE SHEET:**

Cash	\$ <u>67,125</u>	\$ _____
Cash and cash equivalents per balance sheet	\$ <u>67,125</u>	\$ _____

**SCHEDULE RECONCILING OPERATING INCOME
 TO NET CASH FLOW FROM OPERATING
 ACTIVITIES:**

Operating income(loss)	\$ (1,164,156)	\$ _____
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	291,804	
Bad debt allowance change	584	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(4,964)	
Increase (decrease) in liabilities:		
Accounts payable	1,032	
Accrued wages/payroll taxes	(3,164)	
Accrued payments in lieu of taxes	9,527	
Other accrued liabilities	(2,543)	
Accrued liabilities	(114,127)	
Deferred revenues	(11,377)	
Net cash (used) by operating activities	<u>\$ (997,384)</u>	<u>\$ _____</u>

Totals

\$ 67,125

\$ 67,125

\$ (1,164,156)

291,804
584

(4,964)

1,032
(3,164)

9,527
(2,543)
(114,127)
(11,377)

\$ (997,384)

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2005
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 660,507
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2005	Capital Fund Program	14.872	<u>184,830</u>
	Total		<u>\$ 845,337</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

HIGHLAND PARK HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended September 30, 2005

=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 67,125	\$
100	Total cash	<u>67,125</u>	
	Receivables:		
125	A/R-miscellaneous	8,961	
126	A/R-tenants-dwelling rents	18,867	
126.1	Allowance for doubtful accounts- dwelling rent	(3,547)	
120	Total receivables, net of allowance for doubtful accounts	<u>24,281</u>	
	Current Investments:		
131	Investments-unrestricted	<u>241,943</u>	
	Other Current Assets:		
143	Inventory	<u>6,481</u>	
150	Total current assets	<u>339,830</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	122,633	
162	Buildings	2,034,474	
163	Furn, equip & mach-dwellings	606,256	
164	Furn, equip & mach-admin.	62,752	
165	Building improvements	3,569,927	
166	Accumulated depreciation	(2,780,562)	
167	Construction in progress		<u>130,914</u>
160	Total fixed assets, net of accumulated depreciation	<u>3,615,480</u>	<u>130,914</u>
180	Total noncurrent assets	<u>3,615,480</u>	<u>130,914</u>
190	Total Assets	<u>\$ 3,955,310</u>	<u>\$ 130,914</u>

Totals

\$ 67,125

67,125

8,961
18,867

(3,547)

24,281

241,943

6,481

339,830

122,633
2,034,474
606,256
62,752
3,569,927
(2,780,562)
130,914

3,746,394

3,746,394

\$ 4,086,224

HIGHLAND PARK HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 25,460	\$
321	Accrued wage/payroll taxes payable	20,206	
322	Accrued compensated absences-current portion	9,451	
333	Accounts payable-other government	9,527	
341	Tenant security deposits	26,760	
342	Deferred revenues	<u>3,004</u>	
310	Total current liabilities	<u>94,408</u>	
	Noncurrent Liabilities:		
353	Noncurrent liabilities-other	85,972	
354	Accrued compensated absences	<u>28,354</u>	
	Total noncurrent liabilities	<u>114,326</u>	
300	Total liabilities	<u>208,734</u>	
	Equity:		
508.1	Invested in capital assets	<u>3,615,480</u>	<u>130,914</u>
508	Total equity	3,615,480	130,914
	Net Assets:		
512.1	Unrestricted net assets	<u>131,096</u>	
513	Total equity/net assets	<u>3,746,576</u>	<u>130,914</u>
600	Total Liabilities and Equity/Net Assets	<u>\$3,955,310</u>	<u>\$ 130,914</u>

Totals

\$ 25,460

20,206

9,451

9,527

26,760

3,004

94,408

85,972

28,354

114,326

208,734

3,746,394

3,746,394

131,096

3,877,490

\$ 4,086,224

HIGHLAND PARK HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 457,543	\$
704	Tenant revenue-other	<u>50</u>	
705	Total tenant revenue	457,593	
706	HUD PHA grants	660,507	
706.1	Capital grants		184,830
711	Investment income-unrestricted	3,927	
715	Other revenue	<u>21,750</u>	
700	Total revenue	<u>1,143,777</u>	<u>184,830</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	137,576	
912	Auditing fees	7,700	
915	Employee benefit contributions-adm.	63,936	
916	Other operating-administrative	69,617	
	Tenant Services:		
921	Tenant services-salaries	36,019	
923	Employee benefit contributions-adm.	13,195	
	Utilities:		
931	Water	127,938	
932	Electricity	104,601	
933	Gas	26,237	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	185,553	
942	Ordinary maint & oper-mat'ls & other	51,453	
943	Ordinary maint & oper-contract costs	176,954	
945	Employee benefit contributions-ordinary maintenance	100,101	
951	Protective services-labor	68,463	
953	Protective services-other	5,183	
	General expenses:		
961	Insurance premiums	107,267	
963	Payments in lieu of taxes	9,527	
964	Bad debt-tenant rents	<u>11,452</u>	
969	Total operating expenses	<u>1,302,772</u>	
970	Excess operating revenue over operating expenses	<u>(158,995)</u>	<u>184,830</u>

Totals

\$ 457,543
50
457,593
660,507
184,830
3,927
21,750

1,328,607

137,576
7,700
63,936
69,617

36,019
13,195

127,938
104,601
26,237

185,553
51,453
176,954

100,101
68,463
5,183

107,267
9,527
11,452

1,302,772

25,835

HIGHLAND PARK HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	27,173	
974	Depreciation expense	<u>291,804</u>	
	Total other expenses	<u>318,977</u>	
900	Total expenses	<u>1,621,749</u>	
1000	Excess (deficiency) of operating revenue over(under) expenses	(477,972)	184,830
1103	Beginning Net Assets	3,737,693	389,581
1104	Prior period adjustments, equity transfers, and correction of errors	<u>486,855</u>	<u>(443,497)</u>
	Ending Net Assets	<u>\$ 3,746,576</u>	<u>\$130,914</u>

Totals

27,173

291,804

318,977

1,621,749

(293,142)

4,127,274

43,358

\$ 3,877,490

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Housing Commissioners
Highland Park Housing Commission
Highland Park, Michigan

I have audited the financial statements of the business-type activities of the Highland Park Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated June 29, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Housing Commission's, ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-1, 05-2, 05-4, 05-5, 05-6, 05-7, and 05-8.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable condition described above, I consider to be a material weakness.

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
Highland Park Housing Commission
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 05-3 and 05-9.

I also noted certain additional matters that I reported to management of the Housing Commission, in a separate letter dated June 29, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Vandell, CPA, PC

June 29, 2006

**Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Highland Park Housing Commission
Highland Park, Michigan

Compliance

I have audited the compliance of the Highland Park Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

As described in item 05-10 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding cash management that are applicable to its Low Rent Program. Compliance with such requirements is necessary, in my opinion, for the Housing Commission, to comply with requirements applicable to that program.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Highland Park Housing Commission
Page Two

Compliance - Continued

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

I also noted certain additional matters that I reported to management of the Housing Commission, in a separate letter dated June 29, 2006.

Internal Control Over Compliance

The management of the Housing Commission, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Housing Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-11.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider item 05-11 to be a material weakness.

Report of Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Highland Park Housing Commission
Page Three

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Sandlett, CPA, PE

June 29, 2006

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 September 30, 2005
 =====

A. Summary of Audit Results

1. The auditors' report expresses an qualified opinion on the financial statements of the Housing Commission.
2. Material weaknesses were identified during the audit of the financial statements.
3. There were instances of noncompliance material to the financial statements of the Housing Commission were discovered during the audit.
4. Material weaknesses were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Housing Commission expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) or OMB Circular A-133 are reported in this Schedule.
7. Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850	Low Rent Public Housing	\$ 660,507	Yes	C	N/A	05-1
				C	\$1,382	05-2
				C	N/A	05-3
				C	N/A	05-4
				C	\$ 676	05-5
				C	N/A	05-6
				C	N/A	05-7
				C	N/A	05-8
				C	N/A	05-9
				C	N/A	05-10
				P	N/A	05-11
14.872	Capital Fund Program	<u>184,830</u>	No	O	N/A	N/A
	Total	<u>\$ 845,337</u>				

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Housing Commission was not determined to be a low-risk auditee.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings

Finding 05-1:

Criteria:

Michigan Department of Treasury regulations require that all invoices must be approved by the Board prior to payment unless otherwise addressed in a formal policy.

Statement of Condition:

The Housing Commission pays invoices on a weekly basis. The Board meets once a month.

Questioned Costs:

There are no questioned costs.

Perspective Information:

The Housing Commission's internal controls include check preparation by someone other than a check signer, software to prepare the checks, two check signers are required (including the Executive Director and a commissioner), the invoices are approved and examined by each check signer, and the Board approves a list of paid invoices at the monthly board meetings.

Cause and Effect:

If the Board approves the invoices (with approved exceptions) before they are paid, it provides another internal control. The Board is ultimately responsible for the expenditures being legal and authorized.

Recommendation:

The Board must approve all invoices prior to payment, unless addressed otherwise in a formal policy.

I recommend that the Board establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the Board for approval.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings (continued)

Finding 05-2:

Criteria:

Illegal or unauthorized expenditures are defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H).

Statement of Condition:

The Housing Commission made payments for flowers to the sick or departed and office refreshments and meals for Board meetings.

Questioned Costs:

Payments for flowers during the fiscal year totaled \$162.55. Payments for office refreshments were minimal, i.e. less than \$200.00 for the fiscal year. Meals for Board meetings were about \$100 per meeting. The Board meets monthly.

Perspective Information:

The Housing Commission caters in a meal for each monthly board meeting. Office refreshments would have been paid out of petty cash.

Cause and Effect:

The Board may not have been aware that these are illegal expenditures.

Recommendation:

I recommend that office refreshments, donations to nonprofit organizations and flowers not be done in the future.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings (continued)

Finding 05-3:

Criteria:

HUD has a guideline of \$15 per tenant of receivables for rents.

Statement of Condition:

The Housing Commission as of September 30, 2005, had a accounts receivable from tenants balance of \$18,866.66. There were 169 tenants with a positive balance, therefore, the average balance is \$112 per tenant.

Questioned Costs:

There were no questioned costs.

Perspective Information:

The Housing Commission has a total of 198 units. As of September 30, 2005, there were 23 units that were vacant. Six of the tenants have a negative rent and 169 tenants have a positive rent.

Cause and Effect:

The Housing Commission is not following its own written procedures to collect rent from tenants that are delinquent. The effect is that the Housing Commission is losing rents and cash flow. The Housing Commission has shown a lot of compassion towards
→ residents, where their procedures to collect rent from tenants were inconsistent. The Housing Commission accommodated too much, which places the Housing Commission in the red a lot of times.

Recommendation:

I recommend that the Housing Commission begin following it's own rent collection policy and be consistent in collecting rents that are delinquent.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings

Finding 05-4:

Criteria:

The Michigan Department of Treasury instructions for completing Form 496, *Auditing Procedures Report* state that bank reconciliations should be performed timely (approximately six weeks subsequent to month end).

Statement of Condition:

The bank reconciliations as of September 30, 2005 were prepared more than three months after the fiscal year end.

Questioned Costs:

There were no questioned costs.

Perspective Information:

The Housing Commission has general, payroll, and security deposit checking accounts. The bank accounts are now being reconciled within six weeks of the month end.

Cause and Effect:

The Finance Manager is responsible for preparing the bank reconciliations. The effect is that the Housing Commission does not know the balances in its checking accounts timely.

Recommendation:

I recommend that the bank reconciliations be prepared within days of receiving the bank statements. Also, I recommend that a second individual review the bank reconcilements and compare the cancelled checks to the disbursement register. The reviewed should initial the bank reconciliation.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings (continued)

Finding 05-5:

Criteria:

HUD regulations does not approve of loans to employees.

Statement of Condition:

There is one employee as of September 30, 2005 who has overused 5.56 days of leave time.

Questioned Costs:

The amount in question is approximately \$676.

Perspective Information:

There were ten employees employed by the Housing Commission during the fiscal year. This employee explained that the days are made up the following pay period.

Cause and Effect:

The Housing Commission is not enforcing its own compensated absences policy.

Recommendation:

I recommend that an employee not be paid any compensation if there isn't enough leave time available.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings (continued)

Finding 05-6:

Criteria:

HUD does not approve of presigning checks.

Statement of Condition:

During my fraud risk assessment inquiries, it was discovered that the Housing Commission has been keeping presigned checks on hand in a locked file.

Questioned Costs:

There are no questioned costs.

Perspective Information:

The Housing Commission's annual budget is over a million dollars and there is over \$300,000 of cash in the banks at one time.

Cause and Effect:

Presigning checks is done to make it convenient for paying a bill when nobody is available to sign the checks. This is a serious internal control issue.

Recommendation:

I recommend this practice be discontinued immediately.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings (continued)

Finding 05-7:

Criteria:

HUD regulations require that the Housing Commission follow it's own policies.

Statement of Condition:

The Housing Commission's personnel policy states that an employee's adult children cannot receive health insurance benefits. There are two employees who each have one adult child on the health insurance policy as a rider.

Questioned Costs:

There are no questioned costs, because the Executive Director approved of the rider in a written request to the insurance carrier.

Perspective Information:

There are nine employees receiving health insurance benefits as of May 1, 2006.

Cause and Effect:

The Board apparently was not made aware of the riders by the Executive Director.

Recommendation:

I recommend that the personnel policy be followed. If the Board would like to pay for adult children, the personnel policy should be changed.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings (continued)

Finding 05-8:

Criteria:

The Michigan Department of Labor requires that overtime be paid at time and a half, unless the employee is salaried and supervises personnel.

Statement of Condition:

The Housing Commission has a policy in place that pays no overtime, but keeps track of hours over 40 hours per week and this comp time is tracked independently and decremented when employee takes time off. This time is accumulated at straight time.

Questioned Costs:

There are no questioned costs.

Perspective Information:

There are nine employees currently that receive this benefit.

Cause and Effect:

The Housing Commission may not be aware of the Department of Labor rules. The Housing Commission is at risk of having a Department of Labor audit and paying back wages for several years.

Recommendation:

I recommend that if the Housing Commission continues this comp policy, that it compute the extra hours at time and a half on at least a weekly basis. Also, my recommendation would be to eliminate this the comp policy completely.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings (continued)

Finding 05-9:

Criteria:

HUD regulations require the Housing Commission follow its administrative policy that includes the timely collection of tenant rents and basing rents on income.

Statement of Condition:

The Housing Commission has two employees that are residents and as of May 31, 2006 owe several months rent.

Questioned Costs:

The questioned costs, if any, was not determined.

Perspective Information:

This finding involves two employees. As of June 23, 2006, one of the employees is three months behind in rent and the other is seven months behind. The total account receivable totals \$7,928 for these two employees.

Cause and Effect:

These two employees had obtained the approval of management/or the Board to pay a flat rent of \$200 per month. The approval ended on November 1, 2005 when it was made known this was in violation of HUD's rules.

Recommendation:

The employees/tenants should not be treated any differently than any other tenant when delinquent in their rent payments. The minutes stated that an employee should be evicted if rent is not paid, not terminated.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

C. Federal Award Findings and Questioned Costs

Finding 05-10:

Criteria:

HUD has a statutory requirement that Housing Commission's have a depository agreement signed by each institution that it has accounts with.

Statement of Condition:

The Housing Commission does not have on file any depository agreements with the bank it has accounts with.

Questioned Costs:

There were no questioned costs.

Perspective Information:

The Housing Commission uses one bank for the deposit of cash.

Cause and Effect:

The Housing Commission is at risk that its deposits are not protected by collateral of the bank.

Recommendation:

I recommend that the Housing Commission obtain a depository agreement with each institution that it has deposits with. In addition, I recommend that the Housing Commission have the agreement specify an amount that is collateralized.

HIGHLAND PARK HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

C. Federal Award Findings and Questioned Costs (continued)

Finding 05-11:

Criteria:

The Michigan Open Meetings Act (Act 267 of 1976) require certain meetings of certain public bodies to be open to the public; to require notice and the keeping of minutes of meetings.

Statement of Condition:

The Housing Commission Board meets monthly, the Commissioners and five employees usually attend and tenants can attend if they choose to. The Board then meets with the tenants after the meeting in another room to answer any questions or concerns they may have. There is not much room in the Board room for tenants.

Questioned Costs:

There are no questioned costs.

Perspective Information:

The Board meets monthly.

Cause and Effect:

Tenants may think that the only part of the meeting they can come to is the public hearing portion of the meeting in the separate (more spacious) room.

Recommendation:

I recommend the Board meet in the larger room with chairs placed for the public. Also, the Board may want to consult with HUD/and their attorney to be sure that they are in compliance with Open Meetings Act.

HIGHLAND PARK HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2005
=====

Both prior year findings were cleared by HUD, but the second finding regarding the waiting list may not have been implemented.

HIGHLAND PARK HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2005
=====

<u>Line Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

There were no adjusting journal entries necessary.

HIGHLAND PARK HOUSING COMMISSION

**INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS**

SEPTEMBER 30, 2005

HIGHLAND PARK HOUSING COMMISSION
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SEPTEMBER 30, 2005

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Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Highland Park Housing Commission

I have audited the financial statements of the Highland Park Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated June 29, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustment, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 6 showing no audit adjusting journal entries were necessary).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - The Housing Commission began the process of getting audit proposals in April 2006. I received approval to start the audit in May 2006 and was able to begin my fieldwork on June 13, 2006 and completed my fieldwork on June 29, 2006. The final trial balance was available for me on June 28, 2006. I was able to issue an opinion on the financial statements, because of the fieldwork I had begun before receiving the trial balance. The staff was very cooperative and helpful. It should be noted that the Executive Director went on disability in March 2006 before my fieldwork began and therefore he was not available for me to interview. Because of the many comments and findings, there was a lot of time spent on discussions between myself, staff and several commissioners. Also, many of my findings and comments result from the interviews and inquiries that I do for the fraud risk assessment portion of my audit. This requires that employees respond to specific inquiries or to volunteer information. I was asked by some staff members and board members how I became aware of some of my findings and comments.

INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Sany E. Taudat, CPA, PC

June 29, 2006

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Highland Park Housing Commission

I have audited the financial statements of the Highland Park Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated June 29, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

June 29, 2006

HIGHLAND PARK HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
September 30, 2005
=====

Personnel Policy

The Housing Commission's personnel policy is the same one the City of Highland Park uses.

I recommend that the Housing Commission update and adopt a personnel policy that applies to the Housing Commission's needs.

Workorders

The workorders are not being closed timely and it appears that the dates used are not correct.

I recommend that the Housing Commission assign an employee to monitor the closing of workorders being timely. The workorders should be closed the same day as completed, not several months later.

Unit Turnarounds

There are currently 22 units that are vacant for various reasons.

The Housing Commission needs to improve it's unit turnaround time to comply with HUD requirements and improve it's cash flow.

Waiting List

It was not possible to determine if movein's are taken properly off the waiting list.

I recommend that each tenant file include a copy of the waiting list at the time they were selected, to show that they were taken in the proper order.

Tenant Files

The Housing Commission tenant files I tested were missing a copy of the social security cards, birth certificates, photo ID, and the naturalized citizenship forms (form 214).

I recommend that the Housing Commission begin obtaining copies of the above documentation as the tenants are recertified.

HIGHLAND PARK HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
September 30, 2005
=====

Organization of Tenant Files

I only had enough time to examine eight tenant files and noticed that the files could be organized better.

I recommend that the Housing Commission request that HUD come in to review the tenant files.

Unaudited REAC Financial Submission

The Housing Commission failed to submit its' unaudited REAC financial submission within 60 days of the fiscal year end. This results in a lower financial score for the Housing Commission.

I recommend that in the future the Housing Commission file the unaudited financial information timely.

Invoices

During my testing of disbursements, I noticed that many of the disbursements were paid from copies of supporting documentation.

I recommend that all disbursements be made from original invoices.

Conflicts of Interest and Neopotism

The Housing Commission has several employees and contractors performing services for the Housing Commission that are related.

I recommend that the Housing Commission Board review (and update) their policies on conflicts of interest and neopotism.

Security Guards

There is no indication on the time sheets/cards for security guards that the time has been reviewed and approved. Also, in the past fiscal year under audit, it was revealed to me that security guards were sometimes having others sit in for them and paying them from their own money.

I recommend that the time sheets/cards be reviewed by a supervisor and their initials should be on the time sheets/cards. The practice of security guards hiring replacements out of their own money should not be allowed.

HIGHLAND PARK HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
September 30, 2005
=====

Executive Director

Since March 2006, the Housing Commission has not had an Executive Director.

I recommend that the Housing Commission appoint an interim Executive Director in the future when this type of situation comes up. Leases are not being signed by a Executive Director for new moveins and the Board President has to become more involved in the daily operations and decisions of the Housing Commission.

It's my understanding the Housing Commission is obtaining resumes for candidates for the Executive Director position and hopefully in August an Executive Director will be hired.

Attorney Contract

There was not a contract for me to review for the attorney for the audit period.

I recommend each year the Housing Commission have a contract prepared for the attorney services. Recently the Housing Commission did obtain a contract from the attorney.

Password Protection

During my internal control evaluation procedures, I found that there was not a password required for the software.

I recommend the Housing Commission adopt a policy on password protection. Before completing my fieldwork password protection was established.

Maintenance Supervisor

The maintenance supervisor retired in June 2006.

I recommend that a maintenance supervisor be appointed as soon as possible.

HIGHLAND HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
September 30, 2005
=====

Budgets

The Housing Commission budget for 2004/2005 is in draft form and the 2005/2006 budget has not been prepared as of the last day of my fieldwork.

I recommend that budgets be prepared in a timely fashion.

Federal Express Disbursements

I found during my fraud risk assessment interviews that some of the payments to federal express during the fiscal year included some for personal mailings of a staff member. The employee claims the payments were approved by the prior Executive Director. These are illegal expenditures in the amount of \$185.26. Checks in the amount of \$185.26 were reimbursed to the Housing Commission on June 29, 2006 with two postdated checks.

I recommend the Housing Commission Board communicate to employees the importance of not using Housing Commission funds for personal use.

Staff Evaluations

The last time there were employee evaluations was in 2004.

I recommend that employee evaluations be done at least annually.

Petty Cash Disbursements

The Housing Commission's petty cash is used for the purchase of gas for maintenance trucks, postage, office refreshments and other miscellaneous items.

I recommend the Housing Commission not use the petty cash fund for maintenance gas purchases and office refreshments. Office refreshments are an illegal and unauthorized use of funds. It was explained to me by Board members that the maintenance gas purchases from the petty cash fund has been the favored method for years. I suggest that other alternatives be explored and see if there's a better way.

HIGHLAND PARK HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
September 30, 2005
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Investment Policy

The Housing Commission staff was not able to show me a copy of the investment policy.

I recommend an investment policy be adopted by the Board.

Procurement of Attorney

The attorney was not procured properly. The Housing Commission did not obtain three competitive bids and did not follow the HUD Notice on procuring legal services per the HUD representative.

I recommend that the Housing Commission follow the procurement policy for professional services including attorneys.

Payroll Advance

A payroll advance was made to an employee of the Housing Commission. Further there was no supporting documentation of the advance or a repayment plan. The advance was paid back to the Housing Commission approximately two months later.

I recommend that payroll advances be prohibited. HUD does not recommend loans to employees with federal funds.

Disability Insurance

The Housing Commission did not follow its procurement policy and obtain bids for the insurance. Additional bid(s) were requested only after the purchase.

I recommend that the procurement policy be followed.

HIGHLAND PARK HOUSING COMMISSION

ADJUSTING JOURNAL ENTRIES

September 30, 2005

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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No audit adjusting journal entries were necessary.